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FRIEND OR FOE: REASONABLE NONCOMPETE RESTRICTIONS CAN BENEFIT CORPORATE IN-HOUSE COUNSEL AND PROTECT CORPORATE EMPLOYERS

INTRODUCTION

Historically it has been an ethical violation for attorneys to enter into agreements that limit or restrict their ability to practice law upon leaving employment. This view began with American Bar Association Committee on Professional Ethics Formal Opinion 300 (ABA Formal Opinion 300),¹ was developed through subsequent ethics opinions and legal cases,² and is now reflected in the ABA Model Rule of Professional Conduct 5.6, which states

A lawyer shall not participate in offering or making:

- (a) a partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of a lawyer to practice after termination of the relationship, except an agreement concerning benefits upon retirement; or
- (b) an agreement in which a restriction on the lawyer's right to practice is part of the settlement of a client controversy.³

Forty-nine states have adopted Model Rule 5.6 or some modified version of it or its predecessor, ABA Model Code of Professional Responsibility D.R. 2-108.⁴ Although the emphasis has shifted over the years, the rationale for the prohibition on these post-employment restrictions has primarily been that they restrict: (1) the right of the attorney to practice law and (2) the ability of the client to choose his or her preferred attorney.⁵ The various ethics opinions and court cases that have evolved primarily focus on the rule as it relates to lawyers who leave a firm in order to practice law at another firm.

There has been limited focus on the issue as it relates to post-employment agreements between corporate in-house counsel and their employers, and the

1. ABA Comm. on Prof'l Ethics, Formal Op. 300 (1961).

2. See *infra* Part I.A.1.

3. MODEL RULES OF PROF'L CONDUCT R. 5.6 (2003).

4. See Linda Sorenson Ewald, *Agreements Restricting the Practice of Law: A New Look at an Old Paradox*, 26 J. LEGAL PROF. 1, 6 & n.11 (2002). Maine is the only state with a rule that allows restrictions on the practice of law as a condition for receiving post-employment compensation. *Id.* at 6.

5. See *id.* at 7–11.

ethics opinions that have considered the matter have split somewhat on the issue.⁶ In July 2006, the New Jersey Committee on Professional Ethics released Opinion 708, which opined that New Jersey Rule of Professional Conduct (RPC) 5.6 was applicable to in-house counsel and that post-employment restrictive covenants are an ethical violation.⁷ Few lawyers recognize the potential conflicts of interest inherent in changing corporate in-house counsel positions, especially when staying in the same industry,⁸ or when moving from a corporation to a law firm. This area of potential conflicts warrants more attention given the trend of more companies bringing lawyers in-house,⁹ particularly given their direct corporate-related responsibilities.¹⁰

This Comment will focus on the applicability of Model Rule 5.6 (and the various versions adopted by the states and other jurisdictions) to noncompete agreements between corporate in-house counsel and their corporate employers. Part I will provide a historical analysis and the current status of noncompete clauses and their impact on legal and other professions. Part I will also examine the applicability of the per se ban to in-house counsel under the New Jersey opinion and how other jurisdictions have addressed the issue. Part II will provide a critical analysis of the alternative approaches to this issue by exploring why in-house counsel and other corporate-employed attorneys are different from attorneys practicing law in law firms, why the rule should be different as it pertains to those attorneys, and why the jurisdictions should be consistent. The analysis in Part II and the Conclusion will advocate that jurisdictions take a reasonableness test approach similar to that used in other professions (and for attorneys in California and Arizona) when applying their version of Model Rule 5.6 to in-house counsel and other corporate-employed attorneys, depending on the type of post-corporate employment, the particular position of the employee, and the individual facts of the situation.

I. HISTORICAL ANALYSIS AND CURRENT STATUS

A. *Noncompete Agreements for Attorneys and Other Professions*

The various approaches to noncompete restrictive covenants in agreements pertaining to the employment of attorneys are (1) a per se ban on all direct and indirect noncompete restrictive covenants; (2) the enforceability of reasonable

6. See *infra* Part I.B.

7. N.J. Advisory Comm. on Prof'l Ethics, Op. 708 (2006).

8. Molly McDonough, A "Simmering Issue" for Corporate Counsel: New Jersey Ruling Says Noncompete Clauses Violate Ethics Rules, A.B.A. J. EREPORT, Aug. 29, 2006 (on file with author).

9. Scott W. Williams, Comment, *Keeping Secrets "In-House": Different Approaches to Client Confidentiality for General Counsel*, 1 J. LEGAL ADVOC. & PRAC. 78, 79, 94 (1999).

10. See Molly McDonough, *Moving Targets: Some Courts May Be Changing Course on Corporate Counsel Mobility*, A.B.A. J. Dec. 2006, at 20, 22.

financial disincentives similar to liquidated damages clauses; (3) the application of a common law reasonableness test that governs noncompete agreements for other professions and businesses; and (4) the use of “savings clauses,” which essentially forbid noncompete restrictions for attorneys leaving a company and going into the practice of law, but may allow, under certain circumstances, noncompete restrictions for employed attorneys who leave the employment of one corporation to go to a competitor corporation.

1. The Majority Approach: A Per Se Ban

The majority of jurisdictions have taken the position of a per se ban on both direct and indirect (for example, financial provisions that indirectly restrict the right to practice law) restrictive covenants and have applied this logic to both attorneys in law firms and in-house counsel.¹¹ This approach has been rationalized on two grounds: the right of attorneys to practice their profession, and the right of clients to hire the attorney of their choice.¹² A brief history of this approach follows.

Since ABA Formal Opinion 300 in 1961, most jurisdictions have fashioned a per se rule against any type of post-employment restriction impacting the rights of attorneys to practice law.¹³ ABA Formal Opinion 300 and other early ethics opinions and court cases based their decisions on the unreasonable restriction of the right of the attorney to practice law.¹⁴ In ABA Formal Opinion 300, the Committee was asked to determine whether a lawyer could sign an employment agreement that contained a restrictive covenant “prohibiting the [lawyer] from practicing law in the city and county in which the lawyer practices for a period of two years after termination of the employment.”¹⁵ The Committee opined that this would be an “unwarranted restriction on the right of a lawyer to choose where he will practice and inconsistent with our professional status.”¹⁶

ABA Informal Opinion 1072 addressed a similar question as to whether a partnership agreement could include a restrictive covenant that would limit a

11. See, e.g., *Jacob v. Norris*, 607 A.2d 142 (N.J. 1992); *Dwyer v. Jung*, 336 A.2d 498 (N.J. Super. Ct. Ch. Div. 1975); *Cohen v. Lord, Day & Lord*, 550 N.E.2d 410 (N.Y. 1989); see also D.C. Bar Legal Ethics Comm., Op. 291 (1999); N.J. Advisory Comm. on Prof'l Ethics, Op. 708 (2006); Phila. Bar Ass'n Prof'l Guidance Comm., Op. 96-5 (1996); Va. Standing Comm. on Legal Ethics, Legal Ethics Opinion 1615 (1995).

12. See *infra* text accompanying notes 22–28.

13. Ewald, *supra* note 4, at 5–6; Robert M. Wilcox, *Enforcing Lawyer Non-Competition Agreements While Maintaining the Profession: The Role of Conflict of Interest Principles*, 84 MINN. L. REV. 915, 925–31 (2000).

14. ABA Comm. on Prof'l Ethics, Formal Op. 300 (1961); ABA Comm. on Ethics and Prof'l Responsibility, Informal Op. 1171 (1971); ABA Comm. on Ethics and Prof'l Responsibility, Informal Op. 1072 (1968).

15. ABA Comm. on Prof'l Ethics, Formal Op. 300 (1961).

16. *Id.*

withdrawing partner from practicing law within the county in which the firm was located for a period of five years.¹⁷ Although there had been an earlier opinion (ABA Informal Opinion 521) that indicated that a restrictive covenant with reasonable and legal limits as between partners dealing on an equal footing was not a question of ethics, Informal Opinion 1072 overruled Informal Opinion 521.¹⁸ Informal Opinion 1072 referred to Formal Opinion 300 and indicated that the Committee saw no difference in terms of the ethical question whether the restrictive covenant was in an agreement between a lawyer and his employer or between lawyer-partners on equal footing.¹⁹ The Committee concluded that

The right to practice law is a privilege granted by the State, and so long as a lawyer holds his license to practice, this right cannot and should not be restricted by such an agreement The attorney must remain free to practice when and where he will and to be available to prospective clients who might desire to engage his services.²⁰

Similarly, ABA Informal Opinion 1171 opined that it would not be ethical for a partnership agreement to limit the ability of a disassociating partner to provide services to certain former clients of his prior firm.²¹

Despite this early focus on the unreasonable restriction on the right of the attorney to practice law, the prevailing and current justification for prohibiting post-employment restrictions is the client's right to choose counsel. This prevailing focus "can be traced to a 1975 New Jersey case, *Dwyer v. Jung*, in which the superior court refused to enforce a restrictive covenant included in a partnership agreement among lawyers."²² In *Dwyer*, the restrictive covenant in question designated clients to each partner upon termination of the partnership and prevented a partner from "doing business with a client designated as that of another partner for a period of . . . five years."²³ The court held that this was a violation of DR 2-108(A) (the predecessor to Model Rule 5.6) as it restricted "the right of the lawyer to choose his clients in the event they seek his services" and "the right of the client to choose the lawyer he wishes to represent him," and as such was "void as against public policy."²⁴

The subsequent New York decision in *Cohen v. Lord, Day & Lord* emphasized that

17. ABA Comm. on Ethics and Prof'l Responsibility, Informal Op. 1072 (1968).

18. *Id.*

19. *Id.*

20. *Id.*

21. ABA Comm. on Ethics and Prof'l Responsibility, Informal Op. 1171 (1971).

22. Wilcox, *supra* note 13, at 924 (citing *Dwyer v. Jung*, 336 A.2d 498 (N.J. Super. Ct. Ch. Div. 1975)).

23. *Dwyer*, 336 A.2d at 499.

24. *Id.* at 501.

While a law firm has a legitimate interest in its own survival and economic well-being and in maintaining its clients, it cannot protect those interests by contracting for the forfeiture of *earned revenues* during the withdrawing partner's active tenure and participation and by, in effect, *restricting the choices of the clients* to retain and continue the withdrawing member as counsel.²⁵

The next leading case was the New Jersey decision in *Jacob v. Norris, McLaughlin & Marcus*, in 1992.²⁶ The New Jersey Supreme Court relied on RPC 5.6 and indicated that its

underlying purpose is to ensure the freedom of clients to select counsel of their choice, despite its wording in terms of the lawyer's right to practice. The RPC is thus designed to serve the public interest in maximum access to lawyers and to preclude commercial arrangements that interfere with that goal.²⁷

Since *Jacob*, a number of jurisdictions have reached similar conclusions and have based those conclusions "upon a policy of protecting the client's choice of counsel."²⁸

The expansion of the majority position beyond direct prohibitions (such as geography and time) to indirect prohibitions (such as financial provisions that indirectly restrict the right to practice law) has been upheld in many jurisdictions.²⁹ Courts have found that these financial disincentives can discourage an attorney from withdrawing from a firm, or in the event the attorney does withdraw these provisions can discourage the attorney from accepting business from former clients of the firm, either of which works toward restricting the right of clients to choose the attorney of their choice.³⁰

2. The Minority Approach: Enforcing Reasonable Financial Disincentives

The minority view, as applied in California and Arizona, holds that reasonable restrictions on competition by lawyers similar to a liquidated damages clause may be enforced without violating the state versions of Model Rule 5.6.³¹ The California and Arizona courts applied a reasonableness test in determining that noncompete agreements that applied a financial disincentive to competition are not per se void or unethical.³²

25. *Cohen v. Lord, Day & Lord*, 550 N.E.2d 410, 413 (N.Y. 1989) (second emphasis added).

26. 607 A.2d 142 (N.J. 1992).

27. *Id.* at 146.

28. *Wilcox*, *supra* note 13, at 929.

29. *See, e.g., Jacob*, 607 A.2d at 148–49; *Cohen*, 550 N.E.2d at 411.

30. *See, e.g., Jacob*, 607 A.2d at 148–49; *Cohen*, 550 N.E.2d at 411.

31. *Fearnow v. Ridenour, Swenson, Cleere & Evans, P.C.*, 138 P.3d 723, 729 (Ariz. 2006); *Howard v. Babcock*, 863 P.2d 150, 160 (Cal. 1994).

32. *See Fearnow*, 138 P.3d at 729; *Howard*, 863 P.2d at 160.

Until recently, California was the only jurisdiction that took a different approach from the per se ban. In *Howard v. Babcock*, the California Supreme Court recognized that an absolute ban on a lawyer's right to practice would be per se unreasonable; however, the court concluded that other reasonable restrictions on competition by lawyers similar to a liquidated damages clause may be enforced without violating Rule 1-500 (California's version of ABA Model Rule 5.6).³³ In *Howard*, the agreement in question required withdrawing partners to forgo certain withdrawal benefits (basically, their share of the accounts receivable and work-in-progress that they would have been entitled to if they had not withdrawn from the partnership) if they competed with their former law firm.³⁴ The Supreme Court of California stated that the agreement did not restrict the practice of law but rather "attache[d] an economic consequence to a departing partner's unrestricted choice to pursue a particular kind of practice" by competing against his former partners.³⁵ The court recognized that a law firm has economic interests that need to be protected, similar to those of any other business, and that the increased mobility of partners creates a need for firms to protect these economic interests by including covenants such as that contained in the *Howard* agreement.³⁶ The court saw no legal justification for treating partners in law firms different from partners in any other profession or business.³⁷ The court noted that this was different from the interpretation of similar ethics rules reached by other jurisdictions and indicated that it disagreed "with the analysis proffered by these courts to justify such an interpretation."³⁸ The court noted that there are many restrictions, both from a general business standpoint and in other ethics rules, on the ability of the lawyer to accept employment or to represent certain clients.³⁹ Further, the court noted that "contemporary changes in the legal profession . . . make the assertion that the practice of law is not comparable to a business unpersuasive and unreflective of reality."⁴⁰ In summary, the court indicated that an agreement placing a reasonable price on competition would not discourage lawyers from continuing to represent clients

33. *Howard*, 863 P.2d at 160.

34. *Id.* at 151.

35. *Id.* at 156.

36. *Id.* at 157.

37. *Id.*

38. *Howard*, 863 P.2d at 158. There are two main reasons that other jurisdictions have proffered for imposing a rule against restrictive covenants: (1) anticompetitive covenants restrict attorneys' freedom to practice law and (2) the practice of law is not a business and clients are not commodities. *Id.*

39. *Id.* at 158-59.

40. *Id.* at 159.

who employ them, and would be consistent with agreements used in other professions.⁴¹

In July 2006, the Arizona Supreme Court decided to follow the California approach in *Howard* with its opinion in *Fearnow v. Ridenour, Swenson, Cleere & Evans, P.C.*, holding that an agreement that imposes a reasonable financial disincentive on competing former partners is enforceable.⁴² “[S]uch an agreement does not violate [Ethical Rule] 5.6(a), but rather should be evaluated under the well-established law governing similar restrictive covenants in agreements between non-lawyers.”⁴³ However, the Supreme Court of Arizona did recognize that restrictive covenants that forbid a lawyer to represent certain clients or practice in certain areas for certain periods of time violate Arizona Rule of Professional Conduct 5.6(a).⁴⁴

These various cases and ethics opinions illustrate that these decisions have been primarily limited to agreements between lawyers and law firms, and that the ethics rules clearly indicate that there is a per se violation if an agreement completely restricts the lawyer’s ability to practice law. Except for California and Arizona, all other jurisdictions that have addressed the issue have indicated that any indirect approach, such as a financial disincentive, that restricts the ability of the lawyer to practice upon leaving the firm or the right of the client to select the lawyer of his choice is also a violation of the ethics rule.⁴⁵

3. Noncompetes in Other Fields: The Common Law Reasonableness Test

A third approach is the common law reasonableness test that governs noncompete agreements for other professions and businesses.⁴⁶ Other professional and non-professional employers have not historically been subject to the same restrictions as the legal profession, and have been able to enforce reasonable noncompete agreements.⁴⁷ Enforcement of reasonable contractual restraints has been “justified on the ground that the employer has a legitimate interest in restraining the employee from appropriating valuable trade information and customer relationships to which he had access in the course of

41. *Id.* at 157, 159.

42. 138 P.3d 723, 729 (Ariz. 2006).

43. *Id.* at 724.

44. *Id.* at 729.

45. Ewald, *supra* note 4, at 38. Arizona’s *Fearnow* case was decided subsequent to the Ewald article.

46. Wilcox, *supra* note 13, at 918.

47. 6 RICHARD A. LORD, WILLISTON ON CONTRACTS §§ 13:4–13:7 (4th ed. 1995); Ewald, *supra* note 4, at 38–39; Robert F. Parker, *Noncompete Agreements Between Lawyers: An Economic Analysis*, 40:4 RES GESTAE, Oct. 1996, at 12.

his employment.”⁴⁸ Legitimate interests have been established by showing “both (i) that the nature of the customer relationship creates a legitimate expectation of future business and (ii) that the departing employee has benefited from the employment in a way that would make subsequent competition by the departing employee unfair.”⁴⁹ Several jurisdictions have applied a reasonableness test and enforced noncompetition restrictions in agreements between medical doctors.⁵⁰ *Arthur Young & Co. v. Black* reached a similar conclusion in regards to a restrictive covenant in a partnership agreement between partners in an accounting firm.⁵¹ These courts follow a reasonableness test approach similar to that outlined in the *Restatement (Second) of Contracts* § 188 when reviewing noncompetition agreements between non-attorneys. The *Restatement* provides as follows:

(1) A promise to refrain from competition that imposes a restraint that is ancillary to an otherwise valid transaction or relationship is unreasonably in restraint of trade if

(a) the restraint is greater than is needed to protect the promisee’s legitimate interest, or

(b) the promisee’s need is outweighed by the hardship to the promisor and the likely injury to the public.

(2) Promises imposing restraints that are ancillary to a valid transaction or relationship include the following:

(a) a promise by the seller of a business not to compete with the buyer in such a way as to injure the value of the business sold;

(b) a promise by an employee or other agent not to compete with his employer or other principal;

(c) a promise by a partner not to compete with the partnership.⁵²

48. Wilcox, *supra* note 13, at 945 (quoting RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. b (1979)).

49. *Id.*

50. *Id.* at 918; *see, e.g.,* Keeley v. Cardiovascular Surgical Assocs., 510 S.E.2d 880, 884–85 (Ga. Ct. App. 1999) (reasonableness test used in upholding noncompete covenant in a surgeon’s employment agreement by determining that the covenant was not geographically vague and the size of the territory was necessary to protect the former employer’s business interests); Weber v. Tillman, 913 P.2d 84, 96–97 (Kan. 1996) (applying reasonableness test to time and territory restrictions in a physician’s employment agreement); Cmty. Hosp. Group, Inc. v. More, 869 A.2d 884, 887 (N.J. 2005) (post-employment restrictive covenant in employment agreement between neurosurgeon and hospital employer upheld as reasonable; however, broad geographic restriction considered injurious to public health and required narrowing of scope).

51. *Arthur Young & Company v. Black*, 466 N.Y.S.2d 10, 10–11 (N.Y. App. Div. 1983).

52. RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981).

Reasonableness is not assumed, and courts will look to the individual facts of each case.⁵³ For example, in *Community Hospital Group, Inc. v. More*, a post-employment restrictive covenant in an employment agreement between a neurosurgeon and a hospital employer was upheld as reasonable because the hospital established that it had “several legitimate protectable interests,” the two-year duration was reasonable, and enforcement “would not impose undue hardship upon Dr. More.”⁵⁴ The protectable business interests included protecting the hospital’s investment in the physician’s training and education, patient lists, and patient referral sources.⁵⁵ There was no undue hardship imposed on the physician by his entering into and being held to the noncompete restriction because he was “a highly qualified neurosurgeon and his services [were] in demand.”⁵⁶ Although the restrictions could result in a longer commute, he “voluntarily resigned and brought any [resulting] hardship upon himself,” and such hardship should not be an impediment to enforcing the restriction.⁵⁷ However, the broad geographic restriction in *Community Hospital Group* was considered injurious to public health and required narrowing of its scope.⁵⁸ On the other hand, in *Keeley v. Cardiovascular Surgical Assocs., P.C.*, the court applied the reasonableness test and determined that the geographic area contained in the noncompete covenant was reasonable under the circumstances of the case.⁵⁹ In *Rapp Insurance Agency Inc. v. Baldree*, an Illinois Appellate Court held that the noncompetition agreement restricting the ability of an insurance agent to compete within certain geographic and time constraints could not be enforced because the plaintiff could not show a legitimate business interest.⁶⁰ A legitimate business interest could not be established because there was “no permanent customer relationship or trade secret/confidential information involved.”⁶¹

The practice of law is the only profession that applies a per se ban on post-employment restrictive covenants.⁶² As illustrated above, the reasonableness

53. *Keeley*, 510 S.E.2d at 885 (reasonableness of territory size to be determined “in view of the facts and circumstances surrounding the case.”); *Cnty. Hosp. Group*, 869 A.2d at 896–97 (“[T]he *Karlin* reasonableness test with emphasis on the public interest, is sufficiently flexible to account for varying factual patterns that may arise.”).

54. 869 A.2d at 897–98.

55. *Id.* at 897.

56. *Id.* at 898.

57. *Id.*

58. *Id.* at 899–900.

59. 510 S.E.2d 880, 885 (Ga. Ct. App. 1999).

60. 597 N.E.2d 936, 938–39 (Ill. App. Ct. 1992).

61. *Id.* at 940.

62. Stephen E. Kalish, *Covenants Not to Compete and the Legal Profession*, 29 ST. LOUIS U. L.J. 423, 424–25 (1985); Parker, *supra* note 47, at 12; see also *Cnty. Hosp. Group*, 869 A.2d at 895 (“Except for attorneys, and more recently, psychologists, [New Jersey] courts have consistently utilized a reasonableness test to determine the enforceability of restrictive

test or balancing test approach is applied to post-employment noncompete restrictions in professions such as medicine and accounting. Many commentators believe that this approach should be adopted for lawyers and law firms.⁶³ This position will be considered more fully in Part II.

4. Savings Clauses

The Washington and Connecticut ethics opinions⁶⁴ allow noncompetition restrictive covenants that use “savings clauses,” which essentially forbid noncompete restrictions for attorneys leaving a company and going into the practice of law but may allow, under certain circumstances, noncompete restrictions for employed attorneys who leave the employment of one corporation to go to a competitor corporation.⁶⁵ This concept will be discussed further in Part II.B.2.

B. *Applicability of Noncompete Restrictions to In-House Counsel*

1. New Jersey Ethics Opinion 708

In July 2006, the New Jersey Committee on Professional Ethics released Opinion 708, which opined that New Jersey RPC 5.6 was applicable to in-house counsel and that post-employment restrictive covenants are an ethical violation.⁶⁶ The inquiry to the Committee resulted from the following provisions in a proposed employment agreement:

8. I agree that, during my employment and for a period of one (1) year immediately after termination of my employment:

(a) I will not become employed by, provide services to or assist, whether as a consultant, employee, officer, director, proprietor, partner or other capacity, any person, firm, business or corporation which (i) is a Competitor of [Employer] (as defined in paragraph 9 below) or (ii) is seeking to become a Competitor of [Employer]; provided however, that

covenants.” (citations omitted)). In *Comprehensive Psychology Sys., P.C. v. Prince*, a noncompete restriction in an employment agreement between a psychologist and his employer was held unenforceable because of the improper interference between the psychologist and his patients and because, similar to the legal profession, the state Board of Psychological Examiners had enacted a rule prohibiting such noncompete restrictions. 867 A.2d 1187, 1189–90 (N.J. Super. Ct. App. Div. 2005). This is the only noted exception outside the legal profession.

63. Ewald, *supra* note 4, at 38–54; Wm. C. Turner Herbert, *Let's Be Reasonable: Rethinking the Prohibition Against Noncompete Clauses in Employment Contracts Between Attorneys in North Carolina*, 82 N.C. L. REV. 249, 266–79 (2003); Parker, *supra* note 47; Wilcox, *supra* note 13, at 945–70.

64. See *infra* Part I.B.2.

65. Conn. Bar Ass'n Comm. on Prof'l Ethics, Informal Op. 02-05 (2002); Wash. State Bar Ass'n, Informal Op. 2100 (2005).

66. N.J. Advisory Comm. on Prof'l Ethics, Formal Op. 708 (2006).

the provisions of this subparagraph (a) shall not apply if my employment is terminated by [Employer] without cause

9. As used in this Agreement, “Competitor or [Employer]” means any person, firm, corporation or business which, directly or indirectly, develops, manufactures, sells or distributes products and/or services, that are the same, or substantially similar to, or compete in the marketplace with, the products and/or services developed, manufactured, sold or distributed by the business unit(s) in which I worked, or as to which I had access to Trade Secrets, Proprietary and Confidential Information, during the last two (2) years of my employment with [Employer].⁶⁷

The Committee’s rationale referred to ABA Committee on Ethics and Professional Responsibility Informal Opinion No. 1301 and Formal Opinion 94-381, which both concluded that there was no difference in the ethical impact when the agreement in question pertained to in-house or corporate counsel as opposed to practicing attorneys as addressed in earlier ethics opinions.⁶⁸ ABA Informal Opinion No. 1301 addressed an inquiry as to whether an employment agreement between a corporate employer and a lawyer-employee could contain a provision that restricted the lawyer-employee from accepting employment with a competitor for a period of two years after termination of the lawyer’s employment for the avowed purpose of protecting the corporation’s confidential information and trade secrets.⁶⁹ The ABA Committee indicated that although DR 2-108(A) (the predecessor to Model Rule 5.6) proscribed such an agreement only between attorneys, the underlying ethical considerations were the same, i.e., “[a]n attorney at law should remain free to practice his profession at all times.”⁷⁰ The ABA Committee further indicated that as to the stated purpose of maintaining confidentiality, the restrictive covenant was “undesirable surplusage” because adequate protection of confidences already exists under various ethics rules.⁷¹ ABA Formal Opinion 94-381 opined that an employment agreement for either an outside lawyer or an in-house lawyer could not be contingent on agreeing to a restrictive covenant not to represent anyone against the corporation in the future, as such a provision is overbroad and an impermissible restriction on the right to practice law.⁷² The ABA Committee found that:

Just as in the partnership situation, restricting a lawyer from ever representing one whose interests are adverse to a former client would impermissibly restrain a lawyer from engaging in his profession. Moreover, in both situations, the

67. *Id.*

68. *Id.*

69. ABA Comm. on Ethics and Prof’l Responsibility, Informal Op. 1301 (1975).

70. *Id.*

71. *Id.*

72. ABA Comm. on Ethics and Prof’l Responsibility, Formal Op. 94-381 (1994).

public would be restricted from access to lawyers who, by virtue of their background and experience, might be the best available lawyers to represent them. While a current client's interests should assume a certain priority for the lawyer, the extent of those interests that continue to have a claim on the lawyer after the lawyer-client relationship is terminated is defined by the scope of the restriction contained in Model Rule 1.9. A lawyer may not ethically ask for nor may a lawyer agree to any further restriction unnecessarily compromising the strong policy in favor of providing the public with a free choice of counsel.⁷³

New Jersey Ethics Opinion 708 concurred with these ABA opinions and further indicated that New Jersey RPC 5.6 was applicable to corporate counsel because: (1) RPC 1:14 states that the Rules of Professional Conduct "shall govern the conduct of members of the bar and judges and employees of all courts of this State"⁷⁴ and therefore applies to any lawyer admitted to the New Jersey bar; and (2) New Jersey Supreme Court Rule 1:27-2 permits any in-house lawyer based in New Jersey but not admitted to the New Jersey bar to hold a limited license authorizing the attorney to perform legal work solely related to that employer, and requires the lawyer to follow the New Jersey Rules of Professional Conduct.⁷⁵ The New Jersey Committee further relied on the New Jersey Supreme Court's holding in *Community Hospital Group*, which distinguished noncompete agreements between attorneys from those among physicians.⁷⁶ The *Community Hospital Group* court distinguished attorneys from physicians by reasoning that the court has the "power to govern the ethical standards of the legal profession" and that the American Medical Association (AMA) "which governs the ethical standards of the medical profession, does not declare restrictive covenants *per se* unethical," but rather applies a reasonableness standard.⁷⁷ The New Jersey Committee opinion was limited to those employed as attorneys and did not address the applicability of RPC 5.6 to an attorney employed as a businessperson.⁷⁸

2. How Other Jurisdictions Have Addressed the Issue

Only five other jurisdictions' ethics committees have specifically addressed the topic of noncompete agreements between in-house counsel and corporate employers. Three jurisdictions (Virginia, Philadelphia, and

73. *Id.*

74. N.J. Comm. on Prof'l Ethics, Formal Op. 708 (2006) (quoting N.J. RULES PROF'L CONDUCT R. 1:14).

75. *Id.*

76. *Id.*; see also *Cnty. Hosp. Group, Inc. v. More*, 869 A.2d 884, 895–96 (2005).

77. *Cnty. Hosp. Group Inc.*, 869 A.2d at 896.

78. See N.J. Comm. on Prof'l Ethics, Formal Op. 708 (2006).

Washington D.C.) have reached conclusions similar to New Jersey's.⁷⁹ Two jurisdictions (Washington and Connecticut) have taken the position that restrictive covenants can be acceptable if they have so-called "savings clauses" indicating that the covenants are "to be interpreted to comply with any applicable rules of professional conduct" and expressly cite ABA Model Rule 5.6 or its related state or jurisdictional rule.⁸⁰

The Virginia State Bar Committee was presented with a hypothetical asking whether a lawyer employed as in-house counsel for a company, who would have access to the company's trade secrets and other confidential information, could enter into an agreement that restricted him from being employed by a competitor for one year following the termination of his employment with the company (however, he would be allowed to serve as outside counsel of a competitor as long as he did not disclose confidential company information).⁸¹ The committee opinion was that "restriction of the lawyer's practice which prevents him from serving as in-house counsel for a competitor for a period of one year violates [the predecessor to Virginia RPC 5.6, Virginia's version of Model Rule 5.6], even though service as outside counsel for a competitor is permitted."⁸²

The Philadelphia Bar Association Professional Guidance Committee was presented with an inquiry as to whether an attorney employed as a manager of technical compliance services for a non-law firm employer, whose responsibilities encompassed activities that could be performed by either a lawyer employed by an outside law firm or a lawyer employed by the non-law firm employer, could sign a letter of employment that provided

If you should leave the Firm, you agree that during the two year period following your departure, you will not directly or indirectly solicit, agree to perform or perform services of any type that the Firm can render (*Services*) for any person or entity who paid or engaged the Firm for *Services*, or who received the benefit of Firm *Services*, or with whom you had any substantial dealing while employed by the Firm. However, this restriction with respect to *Services* applies only if such *Services* were rendered by you or an office or unit of the Firm in which you worked or over which you had supervisory authority.

You also may not assist any employer or other third party in the foregoing.⁸³

The Philadelphia Committee indicated that because it was clear that certain services which the firm rendered could also be provided by an attorney, the

79. See D.C. Bar Legal Ethics Comm., Op. 291 (1999); Phila. Bar Ass'n Prof'l Guidance Comm., Op. 96-5 (1996); Va. Standing Comm. on Legal Ethics, Legal Ethics Opinion 1615 (1995).

80. N.J. Comm. on Prof'l Ethics, Formal Op. 708 (2006); see also Conn. Bar Ass'n Comm. on Prof'l Ethics, Informal Op. 02-05 (2002); Wash. State Bar Ass'n, Informal Op. 2100 (2005).

81. Va. Standing Comm. on Legal Ethics, Legal Ethics Opinion 1615 (1995).

82. *Id.*

83. Phila. Bar Ass'n Prof'l Guidance Comm. Op. 96-5 (1996).

letter of employment appeared to restrict the employee-attorney from rendering legal services to persons who were current clients of the firm and therefore was a restriction on the employee-attorney's right to practice law upon termination of his employment with the firm and, "as such, violate[d] Rule 5.6."⁸⁴ The committee left somewhat open the question of whether the restrictive covenant could be tailored to limit the ability of the attorney to go to another company to do what he currently did for his present employer, because it did not have enough information to determine whether what the attorney currently did could be considered being engaged in the practice of law.⁸⁵

The Washington D.C. Bar Legal Ethics Committee, in Opinion 291, opined that

A lawyer seeking temporary employment or a lawyer seeking the temporary services of another lawyer may not enter into a contract with a lawyer placement agency that requires the temporary lawyer to agree not to apply for or to accept subsequent employment with a firm to which he was assigned or with a client of the firm. Such restriction would violate Rule 5.6. A lawyer seeking temporary employment may agree to notify the placement agency if within a stated period the lawyer accepts subsequent employment at the firm to which he was assigned on a temporary basis.⁸⁶

The D.C. Committee quoted the various ABA Ethics Opinions cited in sections I.A and I.B.1 above, as well as several of the leading cases cited in section I.A.⁸⁷ It further noted that "[w]hile it is permissible for a temporary agency to charge a reasonable fee to a client organization that hires a temporary lawyer, the lawyer should not be asked to decline employment to facilitate enforcement of the contract between the temporary agency and the client organization."⁸⁸

Washington State Bar Association Informal Opinion No. 2100 dealt with an employment agreement containing what the New Jersey Advisory Committee on Professional Ethics referred to as a "savings clause."⁸⁹ The restrictive covenant reviewed by the Washington State Bar Association read as follows:

For a period of five years after end of employment, the employee shall not directly or indirectly own, control, consult with, act as an independent contractor to, or be employed by any business similar to that conducted by the Company. As it relates to the practice of law, this provision shall be interpreted consistent with the Washington RPCs (or similar rules in other jurisdictions), including RPCs 5.6, 1.9, and 1.6. Employee shall not solicit any

84. *Id.*

85. *Id.*

86. D.C. Bar Legal Ethics Comm., Op. 291 (1999).

87. *Id.*

88. *Id.*

89. N.J. Comm. on Prof'l Ethics, Formal Op. 708 (2006); Wash. State Bar Ass'n, Informal Op. 2100 (2005).

of the company's customer accounts or operate within the Company's general trading area. If a customer contacts the Employee about legal representation, Employee shall be free to provide legal representation consistent with the RPCs⁹⁰

The Washington State Bar Association opined that the provision did not violate RPC 5.6(a) because it dealt "specifically with a lawyer's post-employment activities that are not related to the practice of law."⁹¹ The policy behind RPC 5.6 is that noncompete agreements: (1) limit a lawyer's professional autonomy and (2) limit the ability of clients to choose an attorney.⁹² The provision here did neither "because it specifically state[d] that as [the provision] relate[d] to the practice of law that the [Rules of Professional Conduct] control, and it also allow[ed] for the 'Company's' customers to contact the former 'Employee' regarding legal representation."⁹³

Connecticut Bar Association Committee on Professional Ethics Informal Opinion No. 02-05 is another example of an ethics opinion addressing a "savings clause."⁹⁴ The restrictive covenant reviewed by the Connecticut Committee provided that the noncompetition agreement would be effective and binding "only to the extent permissible under Rule 5.6(1)" of the Connecticut Rules of Professional Conduct.⁹⁵ Connecticut Rule of Professional Conduct 5.6(1) is identical to Model Rule 5.6(a).⁹⁶ The rationale for prohibiting agreements that restrict a lawyer's future ability to practice law is that such covenants restrict the ability of a client to select the counsel of their choice.⁹⁷ Rule 5.6 only applies to restrictions on the future practice of law and thus does not apply to "otherwise permissible restrictions on activities constituting something other than 'the practice of law.'"⁹⁸ Thus, the inclusion of the "savings clause" limiting the noncompetition provision to matters other than the future practice of law alleviates any ethical concerns.⁹⁹

II. ANALYSIS

As noted previously, there are primarily four approaches to noncompete restrictive covenants in agreements pertaining to the employment of attorneys: (1) a per se ban on all direct and indirect noncompete restrictive covenants; (2) the enforceability of reasonable financial disincentives similar to liquidated

90. Wash. State Bar Ass'n, Informal Op. 2100 (2005).

91. *Id.*

92. *Id.*

93. *Id.*

94. Conn. Bar Ass'n Comm. on Prof'l Ethics, Informal Op. 02-05 (2002).

95. *Id.*

96. *Id.*

97. *Id.*

98. *Id.*

99. Conn. Bar Ass'n Comm. on Prof'l Ethics, Informal Op. 02-05 (2002).

damages clauses; (3) a common law reasonableness test similar to that which governs noncompete agreements for other professions and businesses; and (4) the use of savings clauses.¹⁰⁰ This Part provides a critical analysis of these alternative approaches by exploring why in-house counsel and other corporate-employed attorneys are different from attorneys practicing law in law firms, why the rules should be different as they pertain to corporate-employed attorneys, and why the jurisdictions should apply a consistent approach. This analysis will advocate adopting the reasonableness test approach applied in other professions when evaluating noncompete restrictions for corporate in-house counsel and other corporate-employed attorneys.

A. *Rules for In-House Counsel Should Differ from Rules for Attorneys Employed by Law Firms*

Many commentators have debated the merits of a per se ban on attorneys' post-employment restrictive covenants.¹⁰¹ The majority have favored a reasonableness test type of approach for all attorneys that is comparable to how other professionals are treated.¹⁰² Regardless of which side one chooses in this debate, the issue as it pertains to in-house counsel should be considered

100. See *supra* Part I.A.

101. See, e.g., Ewald, *supra* note 4, at 53–54 (suggesting a “compensatory approach advances professionalism as well as economic efficiency” by promoting long-term investments by law firms in professionalism and client relations, and “allowing lawyers to negotiate reasonable terms upon which they can part company and make their services available to clients”); Neil W. Hamilton, *Are We a Profession or Merely a Business? The Erosion of Rule 5.6 and the Bar Against Restrictions on the Right to Practice*, 22 WM. MITCHELL L. REV. 1409, 1433 (1996) (“If courts adopt a balancing of interests approach or a commercial rule of reason approach to restrictions on the right to practice, they will cause further erosion of the freedom of clients to select counsel of their choice.”); Herbert, *supra* note 63, at 279 (“The current rule disregards not only the legitimate business interests of law firms, but also the judicial acceptance . . . of restrictive covenants among other professionals.”); Parker, *supra* note 47, at 19–20 (“[A] close examination of the traditional justifications offered for the prohibition on restrictive covenants reveals those justifications to be either obsolete, or flawed”); Wilcox, *supra* note 13, at 970 (“A rule of reason analysis . . . offers a better approach to the issue The current disciplinary rule and the per se refusal of courts to enforce noncompetition agreements are inappropriately rigid approaches that do not give adequate consideration to legitimate interests of a law firm.”).

102. See, e.g., Herbert, *supra* note 63, at 279 (“[T]he rule should be revised to adopt the modern common law reasonableness standard, thereby affording to law firms the same right long enjoyed by the rest of the business and professional communities.” (citation omitted)); Kalish, *supra* note 62, at 456–57 (“The evolving balancing test is a suitable mechanism for determining whether a restrictive covenant should be enforced. There is no reason . . . to exclude the legal profession from the general test Model Rule 5.6(a) should be interpreted to prohibit only unreasonable restrictive covenants. The courts should enforce reasonable covenants not to compete.”); Parker, *supra* note 47, at 19–20 (advocating changes to Indiana Rule 5.6 that would incorporate the common law reasonableness test); Wilcox, *supra* note 13, at 970 (“[E]ach agreement restricting competition by a lawyer should be evaluated on the basis of whether enforcement would be reasonable in the particular situation.”).

separately due to the nature of the organizations in which in-house counsel work and the nature of the duties that they perform.

1. What Is the Practice of Law?

What constitutes the practice of law varies from jurisdiction to jurisdiction and is often determined on a case-by-case¹⁰³ or “I know it when I see it” basis.¹⁰⁴ *Black’s Law Dictionary* defines the “practice of law” as

103. Christine R. Davis, *Approaching Reform: The Future of Multijurisdictional Practice in Today’s Legal Profession*, 29 FLA. ST. U. L. REV. 1339, 1343 (2002).

104. Soha F. Turfler, *A Model Definition of the Practice of Law: If Not Now, When? An Alternative Approach to Defining the Practice of Law*, 61 WASH. & LEE L. REV. 1903, 1907 n.19, 1908 (2004); see, e.g., ALA. CODE § 34-3-6 (2007) (defining the practice of law as including the actions of anyone who appears in a representative capacity before a court or similar legal tribunal, gives legal advice, or acts in a legal representative capacity; but making exceptions for certain nonlawyer activities such as a person or corporation carrying on its own business and certain title or property related functions); MO. REV. STAT. § 484.010.1 (2000) (“The ‘practice of law’ is hereby defined to be and is the appearance as an advocate in a representative capacity or the drawing of papers, pleadings or documents or the performance of any act in such capacity in connection with proceedings pending or prospective before any court of record, commissioner, referee or any body, board, committee or commission constituted by law or having authority to settle controversies.”); COLO. R. CIV. P. 201.3(2)(b) (stating that the practice of law includes employment as a lawyer for a corporation with the primary duties of “(i) Furnishing legal counsel, drafting documents and pleadings, and interpreting and giving legal advice with respect to the law, and/or (ii) Preparing, trying or presenting cases before courts, executive departments, administrative bureaus or agencies”); ILL. SUP. CT. R. 705(g) (“the term ‘practice of law’ shall mean: (1) private practice as a sole practitioner or for a law firm, legal services office, legal clinic or the like; (2) practice as an attorney for an individual, a corporation, partnership, trust, or other entity, with the primary duties of furnishing legal counsel, drafting legal documents and pleadings, interpreting and giving advice regarding the law or preparing, trying or presenting cases before courts, departments of government or administrative agencies; (3) practice as an attorney for the Federal government or for a state government with the same primary duties as described in paragraph (g)(2) above; (4) employment as a judge, magistrate, referee, or similar official for the Federal or a state government, provided that such employment is available only to licensed attorneys; (5) legal service in the armed forces of the United States; (6) employment as a full-time teacher of law at a law school approved by the American Bar Association; or (7) any combination of the above”); VA. SUP. CT. R. Pt. 6, § I(B), (explaining that whether a person’s activities constitute the practice of law depends on whether an attorney-client relationship exists, and that one is practicing law whenever he furnishes to another advice or services which imply his possession and use of legal knowledge or skill; however, sections I(B)(1)–(3) make specific exceptions for those who are performing such functions on behalf of their employers); *Windover v. Sprague Techs.*, 834 F. Supp. 560, 566 (D. Conn. 1993) (referring to the definition provided by the Connecticut Supreme Court in *State Bar Ass’n of Conn. v. The Conn. Bank and Trust Co.*, 140 A.2d 863, 870 (Conn. 1958), which held that “the ‘practice of law’ includes ‘the giving of legal advice on a large variety of subjects and the preparation of legal instruments covering an extensive field.’”); *Ark. Bar Ass’n v. Block*, 323 S.W.2d 912, 914 (Ark. 1959) (stating that “it is impossible to frame any comprehensive definition of what constitutes the practice of law. Each case must be decided upon its own particular facts Perhaps it does not admit of exact definition.”). The *Windover* court noted that although the holding of *State Bar Ass’n of Conn.*

The professional work of a duly licensed lawyer, encompassing a broad range of services such as conducting cases in court, preparing papers necessary to bring about various transactions from conveying land to effecting corporate mergers, preparing legal opinions on various points of law, drafting wills and other estate-planning documents, and advising clients on legal questions. The term also includes activities that comparatively few lawyers engage in but that require legal expertise, such as drafting legislation and court rules.¹⁰⁵

Despite the fact that many of the states' and other jurisdictions' definitions are very broad or general, similar to the *Black's Law Dictionary* definition, many have carved out various exceptions in order to avoid prosecuting certain parties under the unauthorized practice of law (UPL) rules of the jurisdiction.¹⁰⁶ Additionally, some jurisdictions have indicated that there is no clear line between what is and is not the practice of law.¹⁰⁷ One of these jurisdictions has stated that "there is a region wherein much of what lawyers do every day in their practice may also be done by others without wrongful invasion of the lawyers' field."¹⁰⁸ The ABA Task Force on the Model Definition of the Practice of Law recommended that each state and territory adopt its own definition of the practice of law which should include the premise that it is the "application of legal principles and judgment to the circumstances or objectives of another person or entity."¹⁰⁹ Thus, the legal

would imply that in-house counsel would be engaged in the practice of law since they typically provide legal advice to their employer, "in-house counsel working in Connecticut who are not members of the Connecticut bar probably would be considered to be in violation of § 51-88 Yet, the large number of in-house counsel working in Connecticut who are not members of the state bar tends to show either that this interpretation of the statute is incorrect or that the statute is not enforced." 834 F. Supp. at 566. For a comprehensive listing of state definitions, see American Bar Association Task Force on the Model Definition of the Practice of Law, Standing Committee on Client Protection, Washington State Bar Association, *Report to the House of Delegates*, app. A (2003), http://www.abanet.org/cpr/model-def/model_def_statutes.pdf (last visited Jan. 15, 2008).

105. BLACK'S LAW DICTIONARY 1210-11 (8th ed. 2004).

106. See, e.g., ARIZ. SUP. CT. R. 31(d)(7), (9), (10) & (17) (setting forth various exceptions when an officer or employee of a corporation who is not a member of the state bar may represent the corporation before various Arizona tribunals or may prepare documents for use in the regular course of business if these documents are not available to third parties); D.C. CT. APP. R. 49(c)(6) (furnishing an exception for internal counsel providing legal advice only to their regular employer, where the employer does not reasonably expect that it is receiving advice from a person authorized to practice law in the District of Columbia).

107. *Cardinal v. Merrill Lynch Realty/Burnet, Inc.*, 433 N.W.2d 864, 867 (Minn. 1988); *Pulse v. N. Am. Land Title Co. of Mont.*, 707 P.2d 1105, 1109 (Mont. 1985).

108. *Cardinal*, 433 N.W.2d at 867.

109. American Bar Association Task Force on the Model Definition of the Practice of Law, Standing Committee on Client Protection, Washington State Bar Association, *Report to the House of Delegates* (2003), available at http://www.abanet.org/cpr/model-def/taskforce_rpt_803.pdf (last visited Jan. 15, 2008). The Task Force also indicated that the states should

profession continues to have varied definitions amongst the jurisdictions and the debate as to what constitutes the practice of law continues.

This debate has been considerable, especially given the multi-jurisdictional practice issues inherent in the practice of corporate law and the impact on in-house counsel.¹¹⁰ Multi-jurisdictional practice is the “legal work of a lawyer in a jurisdiction in which the lawyer is not admitted to practice law.”¹¹¹ Lawyers in the United States are licensed to practice law within a particular state or jurisdiction; there is no national license to practice law.¹¹² This state or jurisdictional licensing process began because “the need for legal services was locally based and often involved the need for representation in court.”¹¹³ However, the nature of legal representation has evolved to include more counsel and advice outside the courthouse.¹¹⁴ Additionally, the advent of large national and multinational corporations that require legal services across the country, smaller companies with offices in multiple states, information and communication technology, and the increasing complexity of legal practice, have increased the need to provide legal advice and representation across state lines.¹¹⁵ Today, no jurisdiction categorically excludes out-of-state lawyers, and there are a multitude of jurisdictions that accommodate certain out-of-state lawyers.¹¹⁶ The ABA’s MJP Report recommended several changes to the Model Rules to bring about more cohesion across the jurisdictions and address concerns about the regulation of the multi-jurisdictional practice of law.¹¹⁷ It recommended adoption of such changes by the states and other jurisdictions.¹¹⁸

determine who may provide certain services that are included within the definition of the practice of law. *Id.*

110. Davis, *supra* note 103, at 1343; Philip L. Pomerance, *Multijurisdictional Practice and the Health Lawyer: Will Your Practice Benefit From the New ABA Model Rules of Professional Conduct?*, 37 J. HEALTH L. 113, 113 (2004).

111. ABA COMM’N ON MULTIJURISDICTIONAL PRACTICE, CLIENT REPRESENTATION IN THE 21ST CENTURY 4 (2002) [hereinafter MJP REPORT], available at http://www.abanet.org/cpr/mjp/final_mjp_rpt_121702.pdf (last visited Jan. 15, 2008).

112. *Id.* at 6.

113. *Id.*

114. *Id.*

115. *Id.* at 10.

116. MJP REPORT, *supra* note 111, at 8–9.

117. *Id.* at 1. The provision of the Model Rules that relates primarily to in-house counsel provides “A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services in this jurisdiction that: (1) are provided to the lawyer’s employer or its organizational affiliates and are not services for which the forum requires pro hac vice admission[.]” MODEL RULES OF PROF’L CONDUCT R. 5.5(d) (2003).

118. MJP REPORT, *supra* note 111, at 1.

2. Do In-House Counsel Practice Law?

In-house corporate counsel perform a variety of functions that can vary from corporation to corporation and even within a corporation. These functions may include “advising clients on litigation matters, transactional matters, matters relating to . . . national and international business practices, areas of federal and state regulation, the supervision of outside counsel, and the internal management of day-to-day client legal work.”¹¹⁹ Other in-house attorneys are specialists in practice fields that involve purely federal issues that have nothing to do with licensure in a particular state.¹²⁰ Therefore, “in-house counsel are more likely to practice law in other jurisdictions and least likely to know in advance which UPL regulations will apply to them.”¹²¹ “In-house counsel are often viewed as administrators who facilitate the outsourcing of most of the company’s legal work but do little of it themselves.”¹²² Given advances in technology, many companies are requiring their in-house counsel to “take on a broader, strategic role.”¹²³

Do these various functions performed by in-house counsel fall within the definition of the practice of law? The answer appears to be yes under the very broad definitions of most states.¹²⁴ However, as previously indicated, this could vary from state-to-state. At least five jurisdictions have indicated that in-house counsel do not need to be admitted to the bar because their work is not deemed to be the practice of law.¹²⁵ Some of the duties of in-house counsel fall squarely within the practice of law definitions, for example, advising clients on litigation or legal matters.¹²⁶

However, can the same parallel be drawn with regards to duties such as supervising outside counsel and internal management of day-to-day internal legal work? Most corporate in-house counsel are not directly involved in litigation but rather are the “conduits between the company and its litigation attorneys.”¹²⁷ “Companies without in-house counsel are often forced to assign

119. Davis, *supra* note 103, at 1354.

120. *Id.*

121. *Id.*

122. *In-House Counsel: Life in the Corporate Wing*, LAW CROSSING.COM, <http://www.lawcrossing.com/article/index.php?id=1171> (last visited Jan. 15, 2008).

123. *Id.*

124. See *supra* notes 103–109 and accompanying text.

125. ABA Center for Prof'l Responsibility, Jt. Comm. on Lawyer Regulation, *In-House Corporate Counsel Rules* (Mar. 13, 2007) (providing a summary chart of what jurisdictions have adopted Model Rule 5.5(d)(1) regarding multi-jurisdictional practice of in-house counsel). Specifically, Alabama, Connecticut, the District of Columbia, Georgia, and Maryland have indicated that in-house counsel work is not deemed to be practice of law. *Id.* Virginia specifically exempts in-house counsel from the definition of the practice of law. VA. SUP. CT. R. Pt. 6, § I(B)(1)–(3).

126. See various state or jurisdiction definitions, *supra* note 104.

127. Williams, *supra* note 9, at 81.

a high-ranking officer to coordinate the work of outside firms.”¹²⁸ When in-house counsel primarily supervises the work of outside counsel, the corporation is relying on the legal advice of outside counsel, not in-house counsel, and therefore this would be more of a management function than a legal advice or “practice of law” function. The same parallel can be drawn with regards to transactional attorneys employed as in-house counsel. These attorneys may spend most of their time drafting agreements that deal much more extensively with the business aspects of the corporation than with its legal aspects, and these agreements are often reviewed by outside counsel to ensure compliance with any relevant laws.

As noted above, there are a broad variety of functions performed by in-house attorneys. “Although many in-house lawyers view themselves—and are viewed [by others]—solely as legal professionals, [they] are also senior members of a management *team* with the rights and responsibilities associated with that position.”¹²⁹ Therefore, what one chooses to do as an in-house counsel is not limited by the practice of law.¹³⁰

3. Are All Corporate-Employed Attorneys Similar, or Do Job Responsibilities Determine Whether They Practice Law?

Not all corporate attorneys are employed as in-house counsel. Other corporate areas that may employ attorneys include: compliance, risk management, regulatory affairs, tax, employee benefits, and contract negotiation and administration. Just as the duties of in-house corporate counsel vary, the duties also vary among the attorneys employed in these other corporate areas.

As a hypothetical example, one large corporation employs attorneys in several different areas other than the corporate legal or in-house counsel department. There are attorneys and non-attorneys with the same job responsibilities that are employed in the compliance and network management departments. The company grants stock options to top-performing employees at various levels in the organization, and the stock option agreements contain a noncompete clause that requires forfeiture or repayment of options vested within the past year in the event that the individual is employed by a competitor within two years of leaving the company. The compliance staff provides regulatory advice to others within the organization and interacts with state regulators. However, their job responsibilities are varied and do not require a law degree because although they may do much of the research and

128. *Id.*

129. Bernard K. Hooper, *Choose One: Expediter or cat herder?*, 12 A.B.A. BUS. L. TODAY, July–Aug. 2003, available at <http://www.abanet.org/buslaw/blt/2003-07-08/hooper.html> (last visited Jan. 15, 2008).

130. *Id.*

explain state laws and regulations to their internal constituents, they ultimately rely on the legal department or external legal consultants to interpret the laws or regulations. Similarly, the network management staff that negotiate provider network contracts (contracts between a health insurer and the providers that participate in its network of providers) on behalf of the company may or may not have law degrees. However, the contracts are typically standard contracts which require approval by the legal department prior to making any modification. Despite the fact that attorneys may be employed in these areas, they cannot be described as “practicing law” because their duties can be performed by both lawyers and non-lawyers, and their job responsibilities are primarily business-focused rather than related to the provision of legal advice. Thus, they should not be treated any differently in terms of the noncompete clause than any other professional employed by the corporation. In the event that these individuals leave the company, the noncompete clause would not prevent them from practicing law at a law firm; it simply would prevent them from taking a position with a competitor of the corporation unless they were willing to forfeit the stock options.

4. Does the Policy Rationale Behind the Prohibition on Noncompete Restrictions for Attorneys Apply to In-House Counsel or Other Corporate-Employed Attorneys?

The prevailing policy rationale behind the prohibition of noncompete restrictions centers on the right of the lawyer to practice his profession and “the right of the client to choose the lawyer he wishes to represent him.”¹³¹ In-house counsel only work for one client at a time, and thus the ability of either the lawyer to choose a client or a client to choose that particular lawyer is limited by the very nature of the employment arrangement.

This discussion will begin with the right of the lawyer to practice his profession. In-house lawyers only work for one client at a time, and thus the lawyer’s autonomy is already constrained by the nature of the employment relationship. Furthermore, the lawyer is freely choosing to constrain his autonomy by accepting employment with this employer. Also, the lawyer may find it advantageous to agree to a noncompete restriction¹³² because it may benefit the lawyer financially and it also allows the employer to communicate more openly with the lawyer, which makes him a more integral part of the management team and enhances his overall knowledge of the business or industry. Additionally, a noncompete restriction “will never prohibit a lawyer from practicing law and using his skills.”¹³³ Only reasonable noncompete

131. *Dwyer v. Jung*, 336 A.2d 498, 501 (N.J. Super. Ct. Ch. Div. 1975).

132. *Kalish*, *supra* note 62, at 450.

133. *Id.*

covenants will be upheld, and although restricted as to place or clientele, the lawyer will always be able to practice law.¹³⁴

As to the client's ability to choose a lawyer, a client really does not have an absolute right to choose whatever attorney he wants.¹³⁵ A variety of circumstances interfere with this right, such as conflict of interest rules, the lawyer's expertise, the client's ability to pay, or simply the attorney's discretion.¹³⁶ The ethics rules do not restrict the lawyer's discretion to refuse a client. Thus, one reason for refusing a client "could be, if it were allowed, the fact that the lawyer had previously agreed to a restrictive covenant."¹³⁷ In the case of in-house counsel, the potential new company that is trying to hire the lawyer may feel strongly that this is the lawyer that they want for their job. However there are many "competent lawyers in every specialty area, and the fact that a client cannot have his first choice is realistically not a grave concern."¹³⁸ Additionally, one could question why the company wants this particular lawyer—is it because of the lawyer's experience and knowledge in the industry or because of the lawyer's experience and knowledge of the competitor for which he currently works? This can only support a reasonableness test or balancing test approach to enforcement of noncompete covenants that are designed to protect legitimate business interests, even when applied to corporate-employed lawyers.

Additionally, if in-house counsel or other corporate-employed attorneys are not deemed to be practicing law, then there is no rationale behind the policy restricting noncompete agreements because there is no lawyer-client relationship. This same analysis can be applied to other attorneys employed in non-legal jobs within the company.

B. Rules for In-House Counsel and Other Corporate-Employed Attorneys Should Not Differ From Those for Other Corporate Employees

1. In-House Counsel Versus Other Corporate Employees

The practice of law is the only profession that applies a per se ban on post-employment restrictive covenants. As illustrated above, the reasonableness test or balancing test approach is applied to post-employment noncompete restrictions in other professions.¹³⁹ In the case of in-house counsel, the corporation's reasons for wanting the noncompete provision are typically related to protection of confidential information and trade secrets, particularly

134. *Id.*

135. Herbert, *supra* note 63, at 273; Parker, *supra* note 47, at 15.

136. Parker, *supra* note 47, at 15.

137. Kalish, *supra* note 62, at 451.

138. *Id.* at 452.

139. *See supra* notes 47–61 and accompanying text.

with regards to subsequent employment by a competitor. This need for confidentiality and protection of trade secrets does not vary depending on the type of professional within the corporation. Thus, why should in-house counsel be treated any differently than any other corporate employee?

New Jersey Ethics Opinion 708 noted that an attorney is bound by the ethics requirements to keep certain client confidences secret.¹⁴⁰ Additionally, the Opinion indicated that it was conceivable that a corporation could request that its in-house lawyers sign a non-disclosure or confidentiality agreement for other client confidences or trade secrets that might not be protected by the ethics rules.¹⁴¹ However, any nondisclosure or confidentiality agreement may not restrict the lawyer's "ability to practice law or seek to expand the confidential nature of information obtained by the in-house lawyer in the course of performing legal functions beyond the scope of the [rules of professional conduct]."¹⁴² ABA Opinion No. 1301 also indicated that protection of client confidences was provided for under various ethics rules.¹⁴³

Although the ethics rules may protect certain client confidences and a nondisclosure agreement may theoretically bolster this protection, the penalties for violation of ethics rules really do not repay the corporation for the breach of confidence, and the time involved for the corporation to pursue such actions can be costly.¹⁴⁴ Reliance on the Model Rules will not adequately protect the client because the damage is done, i.e., confidential information or trade secrets have been revealed and competitors have been able to act upon such information to the company's detriment, and there is no compensation given the client or company for such damage.¹⁴⁵ Noncompete agreements with a financial incentive not to breach the agreement that are entered into in an arms-length transaction provide a more meaningful incentive for an in-house counsel employee not to breach.¹⁴⁶ "If the general common law would enforce a restrictive covenant to protect [the employer's] interests in the commercial setting, it should enforce a similar covenant in the legal profession."¹⁴⁷ This is particularly warranted in the case of in-house counsel and other corporate-employed attorneys since they are more related to the commercial setting than the legal setting. Given the lack of meaningful enforcement of the disciplinary rules, "one articulated premise for the . . . per se approach has been

140. N.J. Advisory Comm. on Prof'l Ethics, Formal Op. 708 (2006).

141. *Id.*

142. *Id.*

143. *See supra* text accompanying note 71.

144. Kalish, *supra* note 62, at 448-449.

145. *Id.* at 448.

146. *See id.* at 449.

147. *Id.* at 446.

undermined,”¹⁴⁸ particularly when it relates to a corporation and its confidences and trade secrets.

In summary, when a lawyer moves from law firm to law firm the lawyer is bound by the ethics rules and these boundaries seem more defined and easier to abide by since a lawyer always has multiple clients to contend with in a law practice. However, when a lawyer jumps from one corporation to another, the lawyer possesses significant information about the corporation and how it conducts its business, and much of this information may not be protected within the bounds of the ethics rules. Additionally, due to the nature, position, or both, of the corporate attorney and the information or knowledge possessed, the attorney may not be able to clearly define the boundaries of what information can be used in future employment and thus may unintentionally divulge information. Thus, reasonable restraints on future employment will help to protect the corporation from both intentional and unintentional divulging of corporate information or trade secrets.

Additionally, many in-house counsel perform in more of a hybrid counsel/senior executive position. Although these individuals may have some responsibilities that would fall into the broad definition of “practicing law,” many of their duties are more aligned with the overall strategy of the business. This hybrid situation further supports the rationale that these are really senior level executives who are focused on running the business and entrusted with corporate confidences and trade secrets, and thus should be treated comparably to other professionals within the corporation in terms of noncompete restrictions.

2. Other Corporate-Employed Attorneys Versus Other Employees

The analysis above becomes even more pertinent for those corporate employees who just happen to have a law degree but who are not employed in a legal department position. These employees perform functions that other corporate employees without law degrees also perform, and should be held to the same standards as these other employees. The corporation’s reasons for wanting the noncompete provision, i.e., protection of confidential information or trade secrets with regards to subsequent employment with a competitor, remain the same. Thus, reasonable noncompete restrictions should be enforced as to employees that have law degrees just as they are with other corporate employees.

Although the states that allow “savings clauses” in noncompete agreements appear to support noncompete restrictions on a corporate-employed attorney in a legal or non-legal capacity moving to another corporation in a non-legal capacity,¹⁴⁹ a reasonableness test or balancing test approach would be a better

148. *Id.* at 449.

149. *See generally supra* notes 89–99 and accompanying text.

alternative. It would be a consistent rule that applies to all corporate-employed attorneys (in-house counsel and other corporate-employed attorneys) moving to any other corporate employer (regardless of the new corporate position), and would treat these professionals consistently with other professionals within the corporation.

C. *The States Should Be Consistent*

There has been a trend of more companies bringing lawyers in-house.¹⁵⁰ It is expected that “[i]n-house legal staffs will also continue to grow in size, importance, and sophistication and, in many cases, will provide legal services at costs lower than private firms.”¹⁵¹ There was a forty percent increase in the number of in-house lawyers between 1970 and 1980, and a thirty percent increase between 1980 and 1991.¹⁵² Economics is a driving force in bringing attorneys in-house.¹⁵³ Even though litigation may still be handled by outside counsel, the remaining tasks performed in-house can often justify a substantial cost-savings.¹⁵⁴

The main reasons for consistency across jurisdictions as it relates to noncompete restrictions are the increase in numbers of attorneys working internally for corporations; their ability to function as members of the management team; and the corporations’ expectations of being able to hire these individuals and hold them to the same standards as other employed professionals in terms of confidential information and trade secrets.

The multi-jurisdictional practice issues are another reason to advocate consistency across jurisdictions.¹⁵⁵ As noted earlier, the advent of large national and multinational corporations that require legal services across the country, smaller companies with offices in multiple states, information and communication technology, and the increasing complexity of legal practice have increased the need to provide legal advice and representation across state lines.¹⁵⁶ In-house lawyers are typically employed in large national or multinational corporations or in smaller corporations doing business in multiple states. Thus, these lawyers are “potentially subject to inconsistent obligations based on inconsistent definitions of the practice of law,” creating

150. See *supra* note 10 and accompanying text.

151. Michael M. Boone & Terry W. Conner, *Change, Change, and More Change: The Challenge Facing Law Firms*, 63 TEX. B.J. 18, 25 (2000).

152. BARBARA A. CURRAN, ET AL., A.B.A., THE LAWYER STATISTICAL REPORT: A STATISTICAL PROFILE OF THE U.S. LEGAL PROFESSION IN THE 1980S (1985); BARBARA A. CURRAN & CLARA N. CARSON, A.B.A., THE LAWYER STATISTICAL REPORT: THE U.S. LEGAL PROFESSION IN THE 1990S (1994).

153. Williams, *supra* note 9, at 80–81.

154. *Id.*

155. See *supra* notes 110–118 and accompanying text.

156. MJP REPORT, *supra* note 111, at 10.

concerns regarding what types of “legal services they may perform without fear of unauthorized practice liability.”¹⁵⁷ Despite the efforts of the ABA Task Force on the Model Definition of the Practice of Law, the legal profession continues to have varied definitions amongst the jurisdictions.¹⁵⁸ A standardized definition of the “practice of law” would clarify who was practicing law for purposes of noncompete restrictions. However, applying a reasonableness test to noncompete agreements for corporate in-house counsel and other corporate-employed attorneys would eliminate the need to determine whether these attorneys “practice law” in evaluating any noncompete restrictions.

CONCLUSION

Restraints on the practice of law for former corporate in-house counsel should differ from those for other attorneys in the practice of law. Attorneys in key management positions that leave one corporation to go to work for another corporation in the same industry should not be treated any differently than other professionals employed by the corporation. They are privy to much of the same corporate knowledge that would allow them to impact the business of the corporation in the event of their departure. As such, they differ from attorneys in private practice or attorneys that leave corporate employment to return to the private practice of law. Therefore, the traditional reasons (i.e., the right of the lawyer to practice his profession and the ability of a client to choose the attorney of choice) for not allowing noncompete clauses in agreements between attorneys and their law firms should not be applicable to these individuals. First, an in-house attorney’s ability to practice law is already constrained by the nature of his or her employment by one corporation, and the lawyer is freely choosing to constrain his autonomy by accepting employment with this employer. A noncompete restriction would not prohibit the attorney from practicing law, but rather would only impose reasonable limitations for the protection of the client/corporation. Second, there are many factors that limit the ability of the client to choose an attorney (e.g., conflicts of interests, lawyer expertise, etc.), and reasonable noncompete restrictive covenants should simply be one more. Therefore, noncompete clauses in employment or option agreements for corporate-employed attorneys should be held to the same common law reasonableness test that is used for other professions and businesses. Applying a common law reasonableness test or balancing test approach would treat corporate-employed attorneys consistently with other professionals employed by corporations. It would also provide corporations with reasonable protections of legitimate business interests, including

157. Turfler, *supra* note 104, at 1943.

158. *See supra* note 109 and accompanying text.

protection against disclosure, intentional or unintentional, of confidential information and trade secrets.

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